

# GOVERNANCE, COMMITMENTS AND ENGAGEMENT

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# Governance

## 4.1 Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight

*"Enriched by the experience and diversity of its members, the Board of Directors is demonstrating its unity and strong commitment to the L'Oréal corporate project: universalisation and beauty for all. It is fully assuming its role of validating the Company's strategic goals, while opening up new ways of further improving governance."*

(Jean-Paul Agon, Chairman & CEO of L'Oréal)

### **The balance of powers at L'Oréal in a Board of Directors that is independent, strongly committed and vigilant**

The organisation of L'Oréal's Board of Directors is adapted to the Company's specificities and constant progress is always sought.

In 2006, the duties of Chairman of the Board of Directors were separated from those of Chief Executive Officer, at the time when Sir Lindsay Owen-Jones had announced that he wanted to hand over some of his responsibilities to devote some time to the position of Chairman of the Board of Directors. This separation of the duties, which lasted for five years, made it possible to completely ensure a smooth transition with Jean-Paul Agon, appointed as Chief Executive Officer.

In 2011, L'Oréal's Board of Directors decided that the duties of Chairman of the Board of Directors would be reunified with those of Chief Executive Officer and appointed Mr. Jean-Paul Agon to this office.

The Board of Directors considers that the unification of the duties is particularly adapted to the specificities of L'Oréal: a stable and loyal shareholder base, clear identification of its businesses, gradual, steady development of its international activities and top-quality financial and economic performances. An extreme loyalty that has always existed among its senior managers and executive officers, who have precise knowledge of the business. Furthermore, the Company has to be responsive, firstly in a business sector in which decisions have to be taken quickly in a highly competitive international environment, and secondly in the beauty sector which requires strong, coherent communication at all times (see section 2.2.1.1. of the Registration Document on page 33).

Within this general framework, the modus operandi of the Board of Directors has been subject to particular attention so that the Board is in a position to fully carry out its role and the balance of powers on the Board is ensured. At the end of 2012, like in 2011, at the time of the evaluation of their work and their relations with the general management, the Directors noted that the organisation that has been put in place works well. Decision-making processes are clear, as is the division of powers.

### **A Board of Directors that has a wide array of means**

The Board has the means to enable it to handle the questions that concern it with complete freedom questions and particularly when this involves determining the Company's strategic orientations, ensuring and monitoring their implementation and overseeing the good management thereof. The General Management communicates transparently and has the support of the Board of Directors in the strategic choices that it proposes and which are finally decided by the Board. The Chairman conducts the Board's work to build this cohesion without which General Management and its Executive Committee would not be able to commit themselves completely and ensure the Company's development with complete confidence and tranquillity. It is naturally in the interest of all the shareholders but also of all the stakeholders for the Chairman to lead the debates and encourage discussions on the Board of Directors. It can hold meetings at any time depending on topical issues that may arise (see section 2.2.2.1.1. of the Registration Document on page 48).

### **A Board of Directors whose action is fully organised**

The Board acts in all circumstances in the Company's corporate interests. This mission is reinforced in as much as the Board has adopted a code of operation defining rules with regard to conduct and formally providing for the conditions in which it will be given the means it needs to fully perform its role, for example, by deciding to handle any issue with regard to the good running of the Company, within the framework of the law.

Thus, L'Oréal's Board of Directors has adopted Internal Rules which it updates from time to time, both with regard to the formal aspects of its missions and with regard to the rights and obligations of the Directors (knowledge of the regulatory provisions and compliance with them, respect of the Company's interests, a duty of diligence, confidentiality and secrecy, responsibility in the field of insider trading, etc.).

in the light of the findings of the evaluation of its work and within the scope of good corporate governance practices that it has put in place. The complete text of the Internal Rules, which were last updated in February 2011, is published in the Registration Document. It may be amended by the Board in light of the changes in the laws and regulations, but also in its own *modus operandi*.

Finally, a Director formally reports potential conflicts of interest which might concern him/her and, in any event, in this case he/she does not take part in the voting in this respect (see section 2.2.1.2 of the Registration Document on pages 33 and 46).

### **Well-structured, specialised Board Committees, whose remits have been added to**

The Board's meetings are prepared by four very active committees : the Strategy and Sustainable Development Committee, the Audit Committee, the Human Resources and Remuneration Committee and the Appointments and Governance Committee.

In 2011, additions were made to the remits of the Board's Committees, with a greater number of Directors serving on these committees and more opportunities to meet with high-level managers. Only the Strategy and Sustainable Development Committee is chaired by the Chairman and CEO, who does not serve on any other committee.

They include independent Directors, who represent half of the members of the Audit Committee and the Remuneration Committee and include the Chairman of each committee. These committees are completely free to define their respective agendas. They report regularly on their work to the Board of Directors, prepare for its meetings and make proposals to it. Within the scope of the review of its own work at the end of 2012, the Board once again appreciated the quality of the contribution made by its committees in relation with the decisions that it takes, in an increasingly detailed manner (see section 2.2.2.1.2 of the Registration Document on page 49).

### **The Board's work focused on business activities, strategy and the company's environmental, social and societal responsibility commitments**

In 2012, the Board of Directors carried out a great deal of work analysing the components of strategy and following the business activities in the presence of several senior managers. The presentation at a Board meeting by a senior manager gives the Directors the opportunity to take stock, in an ever more detailed manner, of an aspect that characterises its business and its organisation, enabling them to forge an opinion and to make their decisions in full knowledge of the facts.

In this way, in 2012 for example, in the presence of senior managers, the Board reviewed and decided on certain acquisition projects, dealt with issues relating to the development of the Professional Products Division and the Consumer Products Division in France, the strategic orientations for L'Oréal Luxury, L'Oréal's policy and practices in the field of Ethics and the evolution of Digital methods in the Group with regard to communication and marketing.

## COMPOSITION OF THE BOARD OF DIRECTORS AT 31 DECEMBER 2012

**The Board of Directors comprises 14 members:** the Chairman and Chief Executive Officer, the Honorary Chairman, six Directors appointed by the majority shareholders, three of whom are appointed by Mrs. Bettencourt's family group and three by Nestlé (the two Vice-Chairmen of the Board being chosen from among these members) and six independent Directors: Ms. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

Four elected employee representatives also attend Board meetings and have a consultative vote.

The 14 Directors of L'Oréal, who are strongly committed and responsible, exercise complete freedom of judgment, both in terms of independence and gender parity. The composition of the Board of Directors is therefore in compliance with the recommendations of the AFEP-MEDEF Code of Corporate Governance.

Out of a total of 14 Directors, three women have seats on L'Oréal's Board of Directors. The Board is thus in advance of the French Law of January 27th, 2011 relating to the balanced representation of men and women, which provides for a proportion of 20% of women to be reached by 2014. The Board is doing everything it can to appoint more female Directors.

The Appointments and Governance Committee initiated a selection process and made proposals to the Board of Directors in 2012. A female candidate will be proposed to the Annual General Meeting on April 26th, 2013, which will thereby lead to an increase in the proportion of women on the Board.

In any event, in 2017, the composition of the Board will be in compliance with French law which requires balanced representation of men and women, namely a proportion of 40% of Directors of the same gender.

### **List of offices and directorships held by Directors and corporate officers at December 31st, 2012 :**

- **Jean-Paul Agon.** French. Age: 56. He joined L'Oréal in 1978. Following an international career as General Manager of the Consumer Products Division in Greece and of L'Oréal Paris in France, International Managing Director of Biotherm, General Manager of L'Oréal Germany, Executive Vice-President of the Asia Zone, President and CEO of L'Oréal USA, Jean-Paul Agon was appointed as Deputy Chief Executive Officer of L'Oréal in 2005 and then Chief Executive Officer in April 2006 and finally Chairman and CEO in 2011. A Director of L'Oréal since 2006, he is also Chairman of the L'Oréal Corporate Foundation and Chairman of the Strategy and Sustainable Development Committee. Jean-Paul Agon is also a Director of Air Liquide.

- **Françoise Bettencourt Meyers.** French. Age: 59. The daughter of Mrs. Liliane Bettencourt, who is herself the daughter of the founder of L'Oréal, Eugène Schueller, she has been the Chairwoman of the family-owned holding company since January 31st, 2012 and is the Chairwoman of the Bettencourt Schueller Foundation. Françoise Bettencourt Meyers has been a Director of L'Oréal since 1997 and a member of the Strategy and Sustainable Development Committee since April 2012.
- **Peter Brabeck-Letmathe.** Austrian. Age: 68. His main position outside L'Oréal is that of Chairman of the Board of Directors of Nestlé. Peter Brabeck-Letmathe has been a Director of L'Oréal and Vice-Chairman of the Board of Directors since 1997. He has been a member of the Strategy and Sustainable Development Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee since 2007.
- **Paul Bulcke.** Belgian. Age: 58. He joined Nestlé in 1979, and has been its Chief Executive Officer since 2008. Paul Bulcke has been a Director of L'Oréal since 2012, a member of the Strategy and Sustainable Development Committee since April 2012 and is a Board member of Roche Holding in Switzerland.
- **Charles-Henri Filippi.** French. Age: 60. He spent his career in particular within the HSBC Group, in which he was notably Chairman and Chief Executive Officer of HSBC France from 2004 to 2007 and Chairman of the Board of Directors in 2007 and 2008. Charles-Henri Filippi has been a Director of L'Oréal since 2007 and is also a Board member of France Telecom, a member of the Supervisory Board of Euris and a non-voting member of the Board of Directors of Nexity. He is currently the Chairman of Citigroup for France. It is noted that Citigroup does not have, and has never had, a significant position with regard to L'Oréal's banking transactions. Nevertheless, Charles-Henri Filippi is aware that he is under the obligation of notifying the L'Oréal Board of Directors of all situations constituting a conflict of interest, even if such conflict is only potential, and that he must refrain from participating in the corresponding decisions. Furthermore, at Citigroup, he will not take part in the work that is liable to concern L'Oréal. Charles-Henri Filippi is an independent Director, with no conflicts of interest, available and competent. Chairman of the L'Oréal Audit Committee from May 23rd, 2008 to February 12th, 2013, a member of the Audit Committee, Mr. Filippi harmoniously and effectively supplements the Board's expertise in the field of finance. He has also been a member of the Human Resources and Remuneration Committee since April 2011.
- **Xavier Fontanel.** French. Age: 64. He is a former Chairman and Chief Executive Officer (1996-2009) and former Chairman of the Board of Directors of Essilor (2010-2012), member of the Supervisory Board of Schneider Electric, and he has been a Director of L'Oréal since 2002 and Chairman of the Appointments and Governance Committee since 2011.
- **Bernard Kasriel.** French. Age: 66. He is a former Chief Executive Officer of Lafarge. He has been a Director of L'Oréal since 2004 and is Chairman of the Human Resources and Remuneration Committee and member of the Strategy and Sustainable Development Committee. He is also a Board member of Arkema and Nucor (United States).
- **Christiane Kuehne.** Swiss. Age: 57. Head of the Food Strategic Business Unit at Nestlé which she joined in 1977. Christiane Kuehne has been a member of L'Oréal's Board of Directors and the Audit Committee since April 2012.
- **Marc Ladreit de Lacharrière.** French. Age: 72. A member of the Institut de France and with L'Oréal from 1976 to 1991, Marc Ladreit de Lacharrière has been a Director of L'Oréal since 1984, Chairman and Chief Executive Officer of Fimalac, Chairman of Fitch (United States), and a Board member of Casino, Lucien Barrière and Renault. His professional experience and his freedom of judgment, combined with a good knowledge of the Company, make a big contribution to the discussions and decisions of the Board. His length of office is an asset for the Board. It contributes to putting L'Oréal's main strategic options into perspective.
- **Jean-Pierre Meyers.** French. Age: 64. He has been a Director of L'Oréal since 1987, Vice-Chairman of the Board of Directors since 1994, member of the Strategy and Sustainable Development Committee, the Audit Committee, the Appointments and Governance Committee and the Human Resources and Remuneration Committee. He is Vice-Chairman of the Supervisory Board and Chief Executive Officer of the family-owned company Téthys, a Board member of Nestlé and Vice-Chairman of the Bettencourt Schueller Foundation.
- **Jean-Victor Meyers.** French. Age: 26. He studied economics and management at universities in France and the United States. In the context of his professional experience, and over the last few years, he has spent several months in L'Oréal Divisions, in France and other countries. He has been a member of the Supervisory Board of the family holding company Téthys since January 2011 and was co-opted to L'Oréal's Board of Directors at its meeting on February 13th, 2012. This co-optation was ratified by the Annual General Meeting on April 17th, 2012.
- **Sir Lindsay Owen-Jones.** British. Age: 67. He joined the L'Oréal Group in 1969. After a career in France, Chief Executive Officer of L'Oréal in Italy from 1978 to 1981, President (CEO) of L'Oréal USA from 1981 to 1984, he was appointed as a Director and Chief Executive Officer of L'Oréal in 1984 then Chairman and Chief Executive Officer in 1988. Honorary Chairman of L'Oréal since March 18th, 2011, Sir Lindsay Owen-Jones is a Board member of Ferrari (Italy).
- **Annette Roux.** French. Age: 70. Chairperson and Managing Director of Bénéteau from 1976 to 2005, then Vice-Chairperson of the Supervisory Board, Annette Roux has been a member of L'Oréal's Board of Directors since 2007. She is also Chairperson of the Bénéteau Corporate Foundation.
- **Louis Schweitzer.** French. Age: 70. Chairman and Chief Executive Officer of Renault from 1992 to 2005, Chairman of the Board of Directors until 2009, Louis Schweitzer has been a Director of L'Oréal since 2005, a member of the Strategy and Sustainable Development Committee and the Audit Committee since 2011 and Chairman of the Audit Committee since February 12th, 2013. He is also a member of the Advisory Committees of Allianz AG (Germany) and Bosch (Germany).



Under the Articles of Association, L'Oréal's mandate for Board members is four years or less, renewable, to enable staggered terms of office. Each director holds at least 1,000 L'Oréal shares.

## MEMBERS OF L'ORÉAL'S EXECUTIVE COMMITTEE AT DECEMBER 31ST, 2012

### **Jean-Paul Agon**

Chairman and Chief Executive Officer

### **Laurent Attal**

Executive Vice-President  
Research and Innovation

### **Jean-Philippe Blanpain**

Executive Vice-President Operations

### **Nicolas Hieronimus**

President L'Oréal Luxe

### **Jean-Jacques Lebel**

President Consumer Products Division

### **Brigitte Liberman**

President Active Cosmetics Division

### **Marc Menesguen**

Executive Vice-President Strategic  
Marketing Department

### **Christian Mulliez**

Executive Vice-President  
Administration & Finance

### **Alexandre Popoff**

Executive Vice-President  
Latin America Zone

### **Sara Ravella**

Executive Vice-President Communication,  
Sustainability and Public Affairs

### **Frédéric Rozé**

Executive Vice-President  
North America Zone

### **Geoff Skingsley**

Executive Vice-President  
Africa-Middle East Zone

### **Jérôme Tixier**

Executive Vice-President Human  
Resources and Advisor to the Chairman

### **An Verhulst-Santos**

President Professional Products Division

### **Jochen Zaumseil**

Executive Vice-President Asia, Pacific  
Zone Administration et Finances

↳ For additional information, please refer to the « 1.3.2.5. Executive Committee » section, p 10 of the Registration Document 2012.

## 4.2 Indicate whether the Chair of the highest governance body is also an executive officer (and, if so, their function within the organization's management and the reasons for this arrangement)

At its meeting on Thursday, February 10th, 2011, the Board of Directors decided that the duties of Chairman of the Board of Directors would be reunified with those of Chief Executive Officer and entrusted Mr. Jean-Paul Agon with such duties. This transfer of responsibilities has been effective since March 18th, 2011. Sir Lindsay Owen-Jones, who continues to be a Director of L'Oréal, has been appointed as Honorary Chairman.

The separation of the duties of Chairman of the Board of Directors from those of Chief Executive Officer from 2006 to 2011 made it possible to ensure a smooth transition between Sir Lindsay Owen Jones and Mr. Jean-Paul Agon. In 2011, the Board of Directors considered that the environment was favourable to reunifying these duties. This governance model is indeed specifically adapted to the specificities of L'Oréal and its shareholder structure: a stable and loyal shareholder base, clear identification of its businesses, gradual, steady development of its international activities, and top-quality financial and economic performances. L'Oréal has always had senior managers and executive officers who are loyal to the Company and have precise knowledge of the business. Furthermore, the Company has to be responsive, firstly in a business sector in which decisions have to be taken quickly in a highly competitive international environment, and secondly in the beauty sector which requires strong, coherent communication at all times.

At the end of 2012, at the time firstly of the evaluation of their work (see section 2.2.2.2. of the Registration Document on page 53), and secondly of that of their relations with the Company's executives, the Directors confirmed that this organisation operated in a balanced manner.

## 4.3 For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members

The balance of powers on the Board is ensured through a very precise definition and sharing of the tasks to be carried out by everyone, with, on the one hand, the Chairman and CEO and, on the other, thirteen Directors who are free to exercise their judgment. All the Directors receive information on an ongoing basis and have suitable means, within the framework of the Internal Rules of the Board of Directors, with well-structured, specialised committees and committees that have been added to since their creation.

The directors have a duty of vigilance and have complete freedom of judgement, which enables them in particular to participate, in total independence, in the decisions and work of the Board, and, where appropriate, of its Review Committees.

At the end of 2012, the Board of Directors reviewed the situation of each of its members on a case-by-case basis, in particular in light of the independence criteria provided for in the AFEP-MEDEF Code. A member of the Board is considered as independent when he/she does not maintain any relationship of any kind with the Company, its group or its General Management which may interfere with his/her freedom of judgment.

**In this spirit, the criteria which guide the Board in determining whether a member can qualify as independent are the following criteria specified by the AFEP-MEDEF Code:**

- the member must not be an employee or corporate officer of the Company, an employee or director of its parent company or a company which it consolidates in its financial statements, and must not have held any of these positions during the previous five years;
- the member must not be a corporate officer of a company in which the Company directly or indirectly holds the office of director or in which an employee designated as such or a corporate officer of the Company (either currently or having performed such duties within the last five years) holds an office as director;
- the member must not be a customer, supplier, investment banker or financial banker;
- which is important for the Company or its group, or
- for which the Company or its group represents a significant portion of activities;
- the member must not have any close family links with a corporate officer;
- the member must not have been the Company's auditor over the five previous years.

The Board failed to adopt one of the criteria specified by the AFEP-MEDEF Code as it considers that the fact that a member has performed a term of office for over 12 years does not lead to such member losing his independent status.

Thus, although Mr. Ladreit de Lacharrière has been a Director of L'Oréal for over 12 years, his professional experience and his freedom of judgment, combined with good knowledge of the Company, make a big contribution to the discussions and decisions of the Board. His length of office is an asset for the Board. It contributes to putting L'Oréal's main strategic options into perspective.

Indeed, the quality of a director is also measured by his experience, his skills, his authority and his good knowledge of the Company, which are all assets which make it possible to conduct a long-term strategy.

Out of the 14 members of the Board of Directors, six Directors qualify as independent: Ms. Annette Roux, Mr. Charles-Henri Filippi, Mr. Xavier Fontanet, Mr. Bernard Kasriel, Mr. Marc Ladreit de Lacharrière and Mr. Louis Schweitzer.

It is furthermore specified that a review was carried out of the financial flows that took place in 2012 between L'Oréal and the companies in which the six independent Directors also hold an office. It appears from this that the nature of these business relationships is not significant.

The proportion of independent Directors is thus equal to at least one-third and in line with the recommendations of the AFEP-MEDEF Code. Under these conditions, the Board's tasks are carried out with the necessary objectiveness and independence and all the Directors take account of the interests of all the shareholders.

↳ For additional information, please refer to the « 2.2.1.2. Corporate officers » section, p 33 of the Registration Document 2012.

## **4.4 Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body**

The loyalty of its shareholders is one of the group's greatest strengths, an essential component for implementing a long term strategy.

### **Active financial information**

L'Oréal organizes numerous events for shareholders which are all occasions to strengthen links with them. In 2012, the group has increased the number of meetings with individual shareholders: a dozen meetings with shareholders were organized in France and Belgium, as well as visits to plants like Soproreal in Aulnay (France) and laboratories like CAPI in Saint-Ouen (France), and the group participated at the Actionaria exhibition.

In total, the financial information team succeeded in meeting 6,000 individual shareholders and about 650 institutional investors in 2012.

For the fourth consecutive year, L'Oréal's responsibility to its shareholders and staff was acknowledged at the fourth edition of "Grand Prix des Actions" organized by Mieux Vivre Votre Argent magazine in partnership with Vigeo, an independent agency specialized in corporate responsibility. Besides, Vigeo has published a set of ESG indices and has designed L'Oréal as "leading company in corporate responsibility". L'Oréal also received in 2012 the second prize of the General Assembly of CAC 40 groups awarded by Capitalcom.

## The consultative committee of individual shareholders is celebrating its first anniversary

Created in 2010, the Consultative Committee of individual shareholders met four times in the year to discuss themes as varied as preparing for the Annual General Meeting and digital communication. A key body in the dialogue with the group's individual shareholders, the committee enables their expectations to be better understood and the quality of interaction to be constantly improved.

## Rewarding the loyalty of L'Oréal's shareholders

Since the April 2009 Annual General Meeting, L'Oréal has been one of the few CAC 40 companies to offer a loyalty bonus. A dividend increased by 10% is thus offered to all shareholders listed by name or registered for at least two years\*, to acknowledge those who support the company over the long term. Naming gives a better understanding of L'Oréal's shareholders and means they can be offered benefits.

Shareholders listed by name have greatly increased in the last two years.

## 4.5 Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organization's performance (including social and environmental performance)

### Remuneration of the members of the Board of Directors

The provisions adopted by the Board in this regard in September 2003, at the time when the Board published its Internal Rules for the first time, are as follows:

*"The Directors receive attendance fees in the amount approved by the vote at the Ordinary General Meeting, and which are allocated as decided by the Board.*

*The attendance fees are divided between the Directors as follow:*

- *an equal share allocated to each Director, comprising a fixed part and a part that varies according to the degree of regularity in attending meetings;*
- *an additional share for Review Committee members."*

In 2012, the Board adopted for a full year: a fixed annual sum of €30,000; an amount of €5,000 for each Board meeting which the Director attends; an amount of €15,000 for each Director who is a member of the Strategy and Sustainable Development Committee and an additional amount of €15,000 for the Chairman of this committee; an amount of €10,000 for each Director who is a member of the Human Resources and Remuneration Committee and the Appointments and Governance Committee and an additional amount of €10,000 for the Chairman of each of these Committees; an amount of €25,000 for each Director who is a member of the Audit Committee and an additional amount of €25,000 for its Chairman. The Audit Committee's remit is indeed particularly exacting and requires continued attention and a significant commitment.

A total amount of €1,069,000, which falls within the total overall amount of €1,300,000 voted by the Annual General Meeting in 2011, was distributed to the Directors at the beginning of 2013 in respect of the 2012 financial year, for a total of seven meetings, i.e. two more than for 2011.

Out of the 7 meetings held in 2012, 2 extraordinary meetings were called to review the Board's organisation and an acquisition project. These short meetings were not remunerated in terms of the variable portion of attendance fees, according to the Board's wishes.

The attendance rate at Board of Directors' meetings in 2012 is 87.8% on average.

↳ For additional information, please refer to the « 2.2.4. Principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the corporate officers » section, p 61 of the Registration Document 2012.

### Principles and rules adopted by the Board of Directors to determine the remuneration and benefits of all kinds granted to the corporate officers

The Board refers to the recommendations of the AFEP-MEDEF Code for the determination of the remuneration and benefits granted to the corporate officers.

The Board of Directors constantly wishes to incite the General Management both to maximise performance for each financial year and to ensure that the performance is repeated and remains steady year after year.

**To ensure that the corporate officers appointed by the Board are offered remuneration and long-term incentive instruments that will attract them, motivate them, and foster their loyalty, the Board is guided in its reflections by two clear principles:**

- cash remuneration must be modulated in accordance with responsibilities actually exercised, and must be competitive. It must also depend, for the determination of the variable part, partly on the Company's performance, and on the role played in this performance by each of the corporate officers, and partly on qualitative management criteria;
- Conditional grants of shares (ACAs), which have replaced stock options since 2012, are made to these corporate



officers in order to give them an interest in the long-term development of the Company's value and its share price on the stock market, due to their contribution to this valuation.

In assessing these different components of remuneration, reference is made to the situation of executive officers in large international companies with the position of world leaders and operating on similar markets. The Human Resources and Remuneration Committee studies each component of remuneration, ensuring the overall balance of that remuneration. It is particularly attentive to the performance assessment criteria and whether they are in line with the Group's development objectives.

Based on this approach, and in light of this data, the Human Resources and Remuneration Committee makes its proposals to the Board, which deliberates and makes a collective decision with regard to each proposal.

#### **At the beginning of the year, the committee proposes to the Board:**

- the amount of the variable remuneration relating to the previous financial year after a review of each qualitative and quantitative performance criterion in light of the final results for the year. For reasons of confidentiality, the level of performance achieved is measured precisely by the Board but cannot be made public;
- for the current financial year, the amount of the fixed remuneration to be paid, and definition of the objective (value and criteria) determining the variable remuneration.

The Human Resources and Remuneration Committee makes proposals for the conditional grant of shares (ACAs) to the corporate officers appointed by the Board.

### **4.6 Processes in place for the highest governance body to ensure conflicts of interest are avoided**

Within the scope of the law and the rights and obligations of the Directors as defined in the Internal Rules of the Board of Directors of L'Oréal and in accordance with the AFEP-MEDEF Code, the Directors are subject to compliance with the rules in force with regard to conflicts of interest and stock market ethics.

Thus, "the Directors are under the obligation of notifying the Board of all situations constituting a conflict of interest, even if such conflict is only potential, and must refrain from participating in the corresponding deliberations". In this regard, on the basis of the declarations made by each Director, the Board has not identified any conflict of interests. The information pursuant to Annex I of European Regulation No. 809/2004 set out hereafter contains additional details in this respect."

↳ For additional information, please refer to the « 2.2.1.2. The activities of the Board Committees » section, p 49 of the Registration Document 2012.

### **4.7 Process for determining the composition, qualifications, and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity**

#### **Experienced Directors who complement one another**

L'Oréal's Directors come from different backgrounds; they complement one another due to their different professional experience, their skills and their nationalities. They have good knowledge of the Company. The Directors are present, active and strongly committed. These are all assets which contribute to the quality of the Board's deliberations in the context of the decisions that it is called on to make.

↳ For additional information, please refer to the « 2.2.1.2. Corporate officers » section where you will find the biography and functions of each Director, p. 33 of the Registration Document 2012.

### **4.8 Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation**

#### **ETHICS**

L'Oréal has built up its business on the basis of strong ethical values that have guided its development and contributed to establishing its reputation: Integrity, Respect, Excellence, Courage and Transparency.

L'Oréal has the ambition to be one of the most exemplary companies in the worldwide.

L'Oréal's commitment to act ethically and responsibly is summarised in a document entitled "The L'Oréal Spirit" available to all at [www.loreal.com](http://www.loreal.com).

## ETHICS AND SUSTAINABLE DEVELOPMENT

Ethics is at the heart of L'Oréal's commitments to enable sustainable growth and consumption. "The L'Oréal Spirit" provides a general framework for the group's policies on corporate governance, environmental, health and safety strategy, social responsibility and diversity, relations with suppliers, sustainable innovation, responsibility to consumers and philanthropy.

### L'OREAL'S CODE OF BUSINESS ETHICS

L'Oréal's Code of Business Ethics which is the Group's reference document on ethics exists in 43 versions (35 different languages) and is also published in Braille in French and English.

It applies to all staff, officers and directors, members of the Group's Executive and Management Committees and subsidiaries worldwide

Issued to all employees throughout the world, it provides insight into how these values need to be reflected in the behaviour and actions of its employees through simple rules and a description of concrete situations to which they may be exposed. Five supplements to the Code of Business Ethics have since 2010, covered certain aspects in more detail.

The Code of Business Ethics was published for the first time in 2000. It was updated in 2007 with the help of staff from 22 countries in international advisory groups in Asia, Europe, North America and Latin America. It was then validated by each Country Manager, the Head of Human Resources and local Legal advisor to ensure that it was applicable in every country.

The Code of Business Ethics is regularly revised in order to make any improvements. Staff are also encouraged to give their feedback on the Code.

↳ For additional information on Ethics, please refer to the Code of Business Ethics on [http://www.loreal.com/dd/loreal/Article.aspx?TopCode=CorpTopic\\_Group\\_Gouv\\_Ethics\\_Charter&DropDownTopCode=CorpTopic\\_Group\\_Gouv\\_Ethics\\_Charter\\_PDF](http://www.loreal.com/dd/loreal/Article.aspx?TopCode=CorpTopic_Group_Gouv_Ethics_Charter&DropDownTopCode=CorpTopic_Group_Gouv_Ethics_Charter_PDF)

### THE GROUP'S HEAD OF ETHICS

The group's Head of Ethics reports directly to the Chairman and CEO. He is tasked with promoting and embedding best practices in the Group, and giving help when decisions are made related to ethics. He trains staff and manages any complaints. He regularly assesses results and provides periodic reports to the Chairman and CEO and to the Executive Committee.

The Group's Head of Ethics has access to a dedicated budget and team, and to all documents and information concerning L'Oréal's activities and may use any of the group's resources to properly fulfil his remit.

The Group's Ethics Department is ISO 9001 certified.

### IMPLEMENTATION

Country Managers are responsible for implementing the Group's Ethics policy in their country. The Group's Head of Ethics systematically meets any new Country Manager to raise their awareness on Ethics.

The network of Ethics Correspondents, whose role is in particular to assist the Country Managers in ensuring compliance with the Code of Business Ethics, is continuing to expand and offers employees in 58 countries a local contact. The Ethics Correspondents follow a specific training programme every year.

Employees have access to a dedicated intranet which provides them with further information on Ethics. Employee awareness is raised in particular during an annual Ethics Day. On Ethics Day in 2012, each Country Manager discussed ethics with his/her employees. Around 22,000 employees took part in this dialogue and over 2,600 questions were asked worldwide.

A module on Ethics is included in the "Discovery" induction programme for new employees. Ethics modules have also been incorporated into 14 corporate and job specific trainings, covering namely Country Managers, purchasers and recruiters.

Respect for these values is integrated in the appraisal system for all the employees through two ethical competencies: "Acts/Leads with Human Sensitivity" and "Obtains results with integrity".

A practical tool for ethical risk assessment and analysis has been made available to the Group's entities. An annual reporting system makes it possible to monitor implementation of the ethics program. Country visits and the inclusion of ethical questions in internal audit assignments complete the programme.

Finally, employees are able to refer matters to the Chief Ethics Officer through the L'Oréal Ethics Open Talk site which offers a secure reporting mechanism.

## 4.9 Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles

### **The Board's work focused on business activities, strategy and the company's environmental, social and societal responsibility commitments**

In 2012, the Board of Directors carried out a great deal of work analysing the components of strategy and following the business activities in the presence of several senior managers. The presentation at a Board meeting by a senior manager gives the Directors the opportunity to take stock, in an ever more detailed manner, of an aspect that characterises its business and its organisation, enabling them to forge an opinion and to make their decisions in full knowledge of the facts.

In this way, in 2012 for example, in the presence of senior managers, the Board reviewed and decided on certain acquisition projects, dealt with issues relating to the development of the Professional Products Division and the Consumer Products Division in France, the strategic orientations for L'Oréal Luxury, L'Oréal's policy and practices in the field of Ethics and the evolution of Digital methods in the Group with regard to communication and marketing.

Furthermore, as attested to by the preparatory work of its committees (see p. 48 of the Registration Document), the Board examines all the other aspects of strategy, the Group's economic and financial management, Human Resources and the Company's commitments in the environmental, social and societal fields.

#### **Concerning the Committees' works, the missions of two out of four Committees have to be underlined:**

► **The Strategy and Sustainable Development Committee** shows the Board's will to ensure that L'Oréal disposes of all necessary means and resources to answer the stakes of sustainable growth

This Committee clarifies, through its analyses, the strategic orientations submitted to the Board of Directors and monitors the implementation and progress of significant operations that are under way. It ensures that the main financial balances are preserved. Within this framework, the committee reviews the main strategic lines of development, options and projects presented by the General Management, and their economic and financial consequences, acquisition opportunities, and financial transactions liable to significantly change the balance sheet structure. The Committee also makes sure that the Company's commitments with regard to Sustainable Development have been duly taken into consideration, in light of the issues specific to the Group's business activities and its objectives.

Within this framework, the Committee looks at the means and resources put in place and reports on them to the Board. In 2012, two new Directors, Mrs. Françoise Bettencourt Meyers and Mr. Paul Bulcke joined the committee, after the end of the tenures as Director of Mrs. Liliane Bettencourt and Mr. Francisco Castañer Basco.

#### **• Composition of the Committee**

The Committee, which consists of seven Directors, is chaired by the Chairman and Chief Executive Officer (Mr. Jean-Paul Agon). It is also composed of two members of the Bettencourt family (Mrs. Françoise Bettencourt Meyers and Mr. Jean-Pierre Meyers), two members from Nestlé (Mr. Peter Brabeck-Letmathe and Mr. Paul Bulcke) and two independent Directors (Mr. Bernard Kasriel and Mr. Louis Schweitzer). All these Directors participate in Committee meetings with complete freedom of judgment and in the interest of all the shareholders.

The Committee met five times in 2012, with an attendance rate of 91.4%.

#### **• The Committee's work**

As in the past, at each of its meetings in 2012, the Committee examined the performance of the latest product launches, analysed business activities in terms of sales and income, and discussed the prospects and development opportunities of the Group and its Divisions within the scope of changes in markets and competition.

#### **• Approach to strategy**

At the end of the year, in light of all the performances for the financial year, it was confirmed that the Group's development strategy rested in particular on major innovations within the framework of progress in research and increasingly international business.

#### **• Acquisitions**

Throughout the year, acquisition projects were reviewed by the Committee before some of them were presented to the Board for its decision. Thus, the Board of Directors authorised the General Management to enter into strategic acquisitions in 2012. L'Oréal thus confirmed the acquisition of Cadum in France in April, the signature of a contract with a view to the acquisition of the Vogue make-up brand in Colombia in October and the signature of an agreement for the acquisition of the Urban Decay make-up brand in the United States in November.

## • Sustainable Development

In 2012, the Committee reviewed the Sustainable Development Report firstly in the form of an informative summary published with the Activity Report and the Registration Document, and secondly in the form of a complete website dedicated in particular to professionals such as investors, analysts, rating agencies or journalists, etc. The principle of reporting, making it possible to measure and monitor the performance of the corporate social, environmental and societal responsibility policies at L'Oréal, is based on the indicators and the Global Reporting Initiative (GRI) expert guidance which are published in full.

In November 2012, L'Oréal was designated by Vigéo, Europe's leading analysis and social rating agency, as the leading company in social responsibility in France.

## • Cosmetics claims

The Committee was informed of the performance studies in support of the cosmetics claims of the products sold by the Group. Communication is above all fair and since and there must be nothing to mislead the consumer.

## ► The Audit Committee

The main remit of the Audit Committee involves, in accordance with the ordinance of December 8th, 2008 and in line with the recommendations made by the AMF on July 22nd, 2010, monitoring the process for preparation of financial information, the effectiveness of the Internal Control and risk management systems, the statutory audit of the annual and consolidated financial statements by the Statutory Auditors and finally the Statutory Auditors' independence.

Furthermore, if, in the course of its work, the Committee detects a substantial risk, which in its view is not adequately dealt with, it warns the Chairman of the Board accordingly. The Committee can also, in agreement with the General Management, consult other people who may be able to help it carry out its duties, particularly managers with economic and financial responsibilities and those in charge of processing financial information.

## • Composition of the Committee

The Chairman and Chief Executive Officer is not a member of the Audit Committee.

In 2012, another Director, Ms. Christiane Kuehne, was appointed to the Committee, thus maintaining the number of Committee members at four, following the end of Mr. Francisco Castañer Basco's tenure as Director in 2012.

From May 23rd, 2008 to February 12th, 2013, the Committee was chaired by Mr. Charles-Henri Filippi, an independent Director who had recognised financial expertise. It is also composed of Mr. Jean-Pierre Meyers, a member of the committee since its creation in 1999, and Mr. Louis Schweitzer, an independent Director, appointed as a member of the committee in 2011 and who chairs it since February 12th, 2013. Mr. Filippi is currently the Chairman of Citigroup for France. It is noted that Citigroup does not have, and has never had, a significant position with regard to L'Oréal's banking transactions. Nevertheless, Charles-Henri Filippi is aware that he is under the obligation of notifying the L'Oréal Board of Directors of all situations constituting a conflict of interest, even if such conflict is only potential, and that he must refrain from participating in the corresponding decisions. Furthermore, at Citigroup, he will not take part in the work that is liable to concern L'Oréal. Charles-Henri Filippi is an independent Director, with no conflicts of interest, available and competent.

The Directors who are members of the Audit Committee have the necessary qualifications due to their professional experience and their good knowledge of the Group's accounting and financial procedures which are presented to them on a regular basis. They participate actively in Committee meetings, with complete freedom of judgment and in the interest of all the shareholders.

The provision of the AFEP-MEDEF Code that recommends that two-thirds of the Directors should be independent has not been adopted inasmuch as the Company is controlled by two main shareholders. However, the Board of Directors decided to change the composition of this Committee by appointing another independent Director, Mr. Louis Schweitzer, to the Committee in 2011 so that half its members are independent.

The Audit Committee met four times in 2012, in the presence of all its members. On several occasions, it interviewed the Vice-President of the Administration and Finance Division and the senior managers in charge of the areas in which the Committee reviews activities, in particular within the scope of the processes related to risk management and control. The Statutory Auditors attend meetings. The Committee did not consider it appropriate to use outside experts.

## • Quality of the results

The committee examines in depth all the aspects of the Group's annual and interim results, and the main items on the Company's balance sheet.

## • Time frame for provision of documents

Within the scope of the publication of the annual and interim results, the Audit Committee's meeting relating to the

review of these financial statements is held on a date close to that of their presentation to the Board of Directors. But it should be noted that the Board and its committees are regularly given the appropriate information to carry out their supervisory assignment, in this field in particular. Furthermore, the corresponding documents are systematically sent to them prior to the meetings.

#### • Internal Audit and Internal Control activities

Within the scope of more extensive control of the data making up the financial statements, the committee looked at the Internal Audit Department's activities and noted that the quality of the organisation and the results of the assignments were being constantly improved. The findings make it possible to enhance the quality of the standards, the procedures and the tools for processing and secure treatment of information.

In relation with Internal Control, the committee is informed of the risk map showing the risks identified on the basis of an in-depth process of identification and analysis within the regulatory framework and within the scope of the recommendations made by the AMF. The committee noted that risks are taken into consideration at operational level, which is controlled, and that there is a process for a regular review of risks by the Executive Committee.

Finally, the committee was informed of the deployment of a programme to raise awareness of fraud risk (with the main operational scenarios that may be envisaged, the alert procedures and the existing procedures and controls) which is aimed at reducing the Group's exposure to this risk.

#### • Legal risks

The committee is regularly informed of the legal risks and the potential litigation and major events liable to have a significant impact on L'Oréal's financial position and its assets and liabilities. No major event or litigation of this kind was noted by the committee in 2012.

#### • Statutory Auditors' opinions

Within the scope of the auditing of the accounts by the Statutory Auditors, the committee regularly asked for their comments and their opinions. Like it does every year, the committee met with the Statutory Auditors outside the presence of management.

#### • Information Systems Security

The principles adopted by the Group in relation with Information Systems Security were presented to the committee, which noted that L'Oréal's development was taking place through a solid, durable and innovative infrastructure, in a secure environment, with costs under control.

#### • Product quality and safety

In 2012, a meeting was devoted to product quality and safety, in the presence of the Executive Vice-President, Research & Innovation and the Global Head - Worldwide Safety Evaluation & Regulatory Affairs.

One of the main tasks of Research & Innovation at L'Oréal is to guarantee the safety of all products, without any compromise, and complete control over the design quality of these products. This is a longstanding commitment by Research and Innovation at L'Oréal with respect to consumers, professionals in Beauty trades, distributors and employees.

#### • Industrial and environmental risks

In 2012, a meeting was devoted to industrial and environmental risks, in the presence of the Executive Vice-President Operations, the Global Executive Vice-President, Environment, Health and Safety and the Director of Quality.

The priorities are the quality of products, impact on the environment, the reduction of CO2 emissions, oversight of purchases, monitoring of financial problems, measurement of lack of capacity, the social responsibility of suppliers, continuity of production, traceability in the field of distribution and information systems.

↳ For additional information, please refer to the « 2.2.2.1.2. The activities of the Board Committees » section, p 49 and following of the Registration Document 2012.



## 4.10 Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance

### **The Board periodically evaluates the quality of its organisation and its work**

Within the framework of the annual evaluation of its *modus operandi*, on the basis of the best corporate governance practices, the Directors set themselves new targets for improvement of the quality of their organisation and their deliberations every year, for example by enlarging the agenda for their meetings and those of their committees. They seek to adopt the best possible *modus operandi* and ensure that they have all the necessary assets to successfully perform their tasks, with complete freedom.

Every year, the Board reviews its composition, its organisation and its *modus operandi*, in particular in order to verify that, firstly, under these conditions, the agenda for its work duly covers the scope of its assignments and that important questions have been appropriately prepared for and discussed and, secondly, to assess the contribution made by each member to the Board's work.

This evaluation is carried out within the framework of the AFEP-MEDEF Code, to which the Board refers and market recommendations like those of the AMF. On the basis of the summary of prior individual interviews between the Director and the Secretary of the Board of Directors, such interviews being conducted on the basis of a guide which sets out the principles provided for in the code and the recommendations, the Board considers the avenues of progress that still remain open and, at the end of the discussion that takes place, adopts the improvement measures that it considers appropriate.

The Directors again exercised their complete freedom of judgment in 2012. This freedom of judgment allowed them to participate, in total independence, in the work and collective decisions of the Board, and, where applicable, in conducting preparatory work and making proposals through the Board Committees.

The Board considered that the quality of its meetings has continued to improve, in light of what were considered as avenues of progress following the self-evaluation carried out at the end of 2011, particularly with regard to the strategic challenges faced by the Group which are regularly debated and discussed, in the presence of the senior managers who are members of the Executive Committee.

Once again this year, the approach to strategy was examined in detail in the course of the Board's work in light of the development of the brands, the countries and the markets on which the Group operates. Thus, the day spent on strategy at L'Oréal Luxury was particularly appreciated. Furthermore, the Board made a more in-depth analysis of performance, in light in particular of competitors and the a posteriori review of the acquisitions made it possible to monitor the due and proper application of the decisions made.

In 2012, the Board once again appreciated the pace, frequency and format of the information provided to it in connection with business activities in general and the main events in the life of the Group. Making documentation available prior to Board or Committee meetings, in compliance with the requirements of confidentiality and the time constraints with which the Company is faced, favours the quality of the debates.

The Directors made new proposals of topics to be included on the agenda for meetings in 2013, principally in relation with the areas for development of the Group and Research & Innovation, the comparison of strategy with that of competitors and Human Resources worldwide.

↳ For additional information, please refer to the « 2.2.2.2. Self-evaluation by the Board of Directors » section, p 53 of the Registration Document 2012.

# *Commitments to external initiatives*

## 4.11 Explanation of whether and how the precautionary approach or principle is addressed by the organization

At the request of the Chairman and Chief Executive Officer, the Administration and Finance Division compiled the information contained in this report based on the different types of work carried out by departments working on Internal Control and management of the Group's risks and which aims at covering the main operational, legal, industrial, environmental, economic and financial risks described in section 1.8. on pages 20 to 27.

These considerations being taken into account, the following have to be underlined:

## **STRONG COMMITMENTS WITH REGARD TO SOCIAL RESPONSIBILITY AND SAFETY**

The Operations Division, like the Group as a whole, plays a predominant role in the field of social responsibility and safety. Through its "Buy & Care" programme, L'Oréal incites its suppliers to be more responsible and carries out rigorous monitoring of their commitments through a large number of social audits carried out on suppliers throughout the world. Since the programme was put in place, close to 4,400 social audits have been carried out in 3,700 of the Group's suppliers' sites. The objective is not to impose sanctions on suppliers but to help them to improve their safety standards and their environmental and social performances. The Group received a prize from VIGEO <sup>(1)</sup> in 2012 for the prevention of social dumping in the supply chain. In creating the "Solidarity Sourcing" programme, the Group took the initiative of using local suppliers who make commitments in favour of minorities: disabled workers or workers from deprived communities. It may also involve very small suppliers or fair trade players that L'Oréal calls on to contribute with the help of its suppliers. This programme was officially launched in 2012 to the Group's suppliers in order to encourage them to develop the same approach with their own suppliers. With regard to safety, the Operations Division pays particular attention to employees who work on production sites. They are trained in compliance with safety rules and observe "a safety minute" every day in order to prevent and avoid accidents.

↳ For additional information, please refer to the « Solidarity Sourcing : Promoting inclusion by favouring responsible purchasing » section, p 36 of the Sustainable Development Report 2012.

## **ENVIRONMENTAL PROTECTION AT THE HEART OF PRODUCTION**

Throughout the whole of the production chain, innovative measures with regard to Sustainable Development are implemented all over the world, from projects with regard to efficient everyday use of resources to breakthrough projects. Many initiatives that are most suited to the local ecosystem are being introduced at the Group's sites (geothermal energy in Vichy, photovoltaic panels in Mexico, biomethanation in Belgium, phyto restoration in Mourenx (France), and so on).

All these initiatives respond to the three goals that the Group has set itself for the 2005-2015 period for its factories and distribution centres: reducing greenhouse gas emissions by 50%, reducing waste generated per finished good by 50% and reducing water consumption per finished good by 50% (see section 6.2. on pages 200 et seq. of the Registration Document).

Furthermore, the environmental impacts related to packaging, transport and buildings are also taken into consideration.

## **MEASURES ADOPTED WITH REGARD TO CONSUMER HEALTH AND SAFETY**

Protection of consumer safety is one of L'Oréal's absolute priorities. The stringent safety tests carried out on products before they are brought to market ensure that L'Oréal meets all current safety rules in the national regulations of all the countries where the Group's products are marketed. In this respect, long before the legal requirements were introduced, the Group had already set up a product safety assessment team in order to guarantee that products are safe for both professionals and consumers.

Evaluations by L'Oréal's International Safety Assessment Department, based on a multidisciplinary scientific approach, are carried out at all stages of the product life cycle.

The product safety evaluation is based on a complex process: evaluation of the safety of each ingredient and of all finished products on the basis of existing safety data and the latest medical and scientific knowledge. If necessary, L'Oréal conducts additional safety studies subcontracted to qualified laboratories all over the world. The results of these studies are interpreted by experienced scientists who are specially trained in safety assessments.

At the end of the process, a specific safety certificate, signed by a safety assessment expert, is issued for each product that L'Oréal places on the market.

Furthermore, L'Oréal's ethical values, rooted in both scientific rigour and responsiveness to societal concerns, lead to a pre-emptive approach whereby formulations are evolved by removing and/or replacing substances that are the subject of concern.

L'Oréal's added value, in terms of the safety assessment of its ingredients and finished products, lies in its investment for over twenty years in the development of predictive methods and tissue engineering. For many years, L'Oréal has thus been investing in science and technology to create new evaluation tools which are used every day by safety assessors.

L'Oréal also works closely with all the international stakeholders involved in relevant industries in order to progress the development of alternative multidisciplinary solutions in the field of safety assessment.

In fact, L'Oréal's products continually evolve as and when technological innovations occur, but with the constant desire to guarantee the highest level of safety for both consumers and professionals.

↳ For additional information on products quality and safety , please refer to

- the « 6.3.4. Fair business practices » section, paragraph "Measures adopted with regard to consumer health and safety", page 218 of the Registration Document 2012
- the "1.8.1.2. Product quality and safety" section, page 22 of the Registration Document 2012

## A PERMANENT COMMITMENT TO PREDICTING THE HARMLESSNESS AND EFFICACY OF PRODUCTS

The harmless and efficacy of L'Oréal's technological innovations are essential. To meet these requirements, the research team embarked in the 1980s on developing alternative methods to animal testing for the evaluation of the safety of its products.

Much progress has been made thanks to tissue engineering, which made it possible to reconstruct the first human epidermis in 1983 and then the first complete skin (epidermis and dermis) in 1996. Thanks to these models, L'Oréal was able to put an end to animal testing for finished products in 1989, i.e. 14 years before it was required by law in Europe. In three decades, the Group has created genuine expertise in the field of reconstructed tissues. Up until now, twelve reconstructed skin and cornea models have been developed. These models are fabulous tools to predict the safety and efficacy of products and make it possible to reduce the time-to-market.

↳ For additional information on products harmless and efficacy, please refer to the « 1.5. Research and innovation: excellence, to meet the needs of all markets » section of the Registration Document, page 14 2012 and following.

### 4.12 Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. Include date of adoption, countries/operations where applied, and the range of stakeholders involved in the development and governance of these initiatives (e.g., multi-stakeholder, etc.). Differentiate between non-binding, voluntary initiatives and those with which the organization has an obligation to comply

L'Oréal is a signatory of the United Nations Global Compact since 2003 and supports and implements in its sphere of influence the ten fundamental principles relating to Human Rights, labour standards, environmental standards and the fight against corruption.

This commitment is supported at the highest-level of the Company by L'Oréal's Chairman and Chief Executive Officer who renews L'Oréal's commitment to the United Nations Global Compact every year.

L'Oréal is a member of the Global Compact France Network.

↳ For more information about the United Nations Global Compact, please refer to the Group's annual reporting by the Global Compact, available on the page [http://www.loreal.com/DD/loreal/Article.aspx?topcode=CorpTopic\\_Group\\_Gouv\\_Ethics\\_GlobalPact](http://www.loreal.com/DD/loreal/Article.aspx?topcode=CorpTopic_Group_Gouv_Ethics_GlobalPact).

L'Oréal works closely with the following major associations and institutes:

- The International Chamber of Commerce's Anti-Corruption Commission
- Global Council on Business Conduct, The Conference Board
- Ethics and Compliance Officers Association
- The Ethics Resource Center
- International Business Ethics Institute
- Institute of Business Ethics
- European Business Ethics Network
- Cercle Ethique des Affaires
- Institut Français des Administrateurs

### 4.13 Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization:

- Has positions in governance bodies;
- Participates in projects or committees;
- Provides substantive funding beyond routine membership dues, or
- Views membership as strategic.

This refers primarily to memberships maintained at the organizational level

As a leader in the cosmetic industry, L'Oréal considers it has a duty to be proactive and to play a part in the formulation of local regulations in the countries in which the Group operates.

It is for this reason that the Group joined Cosmetics Europe – the Personal Care Association (formerly Colipa), the trade

association of the cosmetic, toiletry and perfumery industry, the body almost systematically called upon, quoted, referred to or involved as the industry spokesman in dealing with stakeholders, and also a number of other trade associations at European level: MEDEF, AFEP and AIM. In South America, L'Oréal is involved with CASIC and CONARS (on matters to do with self-regulation and responsible advertising).

#### Leadership, collaboration and assistance

L'Oréal maintains its role as a leader and shares its advances in the field of sustainable development by participating in and contributing to:

- The Study Centre for Corporate Social Responsibility (ORSE), a Europe-wide network of businesses set up to develop and share CSR tools and knowledge;
- CSR Europe, a European business network promoting CSR with some 75 multinational groups numbered amongst its members;
- The Carbon Disclosure Project, an international NGO providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information;
- The Conference Board, a US business research association set up to gather and disseminate data to help its members act as exemplary corporate citizens;
- The World Business Council for Sustainable Development, an international organisation of CEOs that deals exclusively with issues of business and sustainability;
- The United Nations Global Compact – L'Oréal became a signatory to the 10 principles of the Global Pact in 2003;
- The Forest Footprint Disclosure Project (FFDP) that assists companies in determining their «forest footprint». The FFDP Index for 2012 once again ranked L'Oréal at the head of its category for its responsible sourcing of cardboard and palm oil;
- EUROPEN (European Organisation for Packaging and the Environment), a body made up of companies keen to present and defend their views on packaging and the environment to the authorities.

#### L'Oréal also:

- supports university research, in particular by sponsoring the Chair in Bioplastics at the Ecole des Mines Paris, which studies alternative packaging materials;
- participates in all the leading industry forums and networks;
- engages in active, open dialogue on topics relating to sustainable development with the stakeholders concerned, including environmental protection groups, charity partners and Group suppliers.

## Diversity

2011: L'Oréal joined forces with the RMC-BFM Association to launch the Charte du Coeur (Charter for the Heart) campaign that gained the support of 83 companies for a campaign to install defibrillators in public places and provide emergency first-aid training for their employees, suppliers and customers.

- In 2011, L'Oréal was awarded the first European label for gender equality, Gender Equality European Standard (GEES), for seven European countries: France, Italy, Spain, Belgium, Germany, the UK and Ireland.
- Since 2010, L'Oréal has partnered the EVE programme, the first intercompany seminar on women's leadership, dedicated to women and open to men. The first session, initiated by Danone in 2010, was attended by close on 250 participants including 16 L'Oréal employees. The 2011 event was attended by 30 L'Oréal employees.
- In 2012, in conjunction with the AFMD (French association of diversity managers), L'Oréal launched the first Encyclopaedia of Diversity in France.

↳ For more information on GEES : <http://www.bureauveritas.com/wps/wcm/connect/bv.com/group/home/news/business-news/vision%20-%20bureau%20veritas%20certification%20partners%20with%20arborus%20to%20deliver%20gender%20equality%20european%20standard%20certification>

↳ For more information on the EVE programme: <http://www.eveprogramme.com/>

# Stakeholder engagement

## 4.14 List of stakeholder groups engaged by the organization

## 4.15 Basis for identification and selection of stakeholders with whom to engage. This includes the organization's process for defining its stakeholder groups, and for determining the groups with which to engage and not to engage

## 4.16 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. This could include surveys, focus groups, community panels, corporate advisory panels, written communication, management/union structures, and other vehicles. The organization should indicate whether any of the engagement was undertaken specifically as part of the report preparation process

### **GENERAL RESPONSE TO CRITERIA 4.14, 4.15 AND 4.16**

L'Oréal has for several years engaged in dialogue with its stakeholders, i.e. those «impacting on» or «impacted by» its activity, demonstrating its readiness to listen to and gain a deeper understanding of their needs.

#### **Identification of stakeholders**

The L'Oréal Group has identified 11 stakeholder categories with which it engages in ongoing dialogue.

Five stakeholder categories involved in the business life of L'Oréal:

- Employees
- Suppliers
- Consumers
- Shareholders
- Customers (distributors)

Three stakeholder categories observing or advising L'Oréal on its progress in the field of sustainable development:

- NGOs and associations
- Non-financial rating agencies and investors
- The scientific community of researchers and academics

Three stakeholder categories interacting with the Group in the interests of mutual, shared development

- Central and local authorities
- Students and young graduates
- Civil society



## Means of dialogue tailored to each stakeholder

L'Oréal has established structured and appropriate means of dialogue with each of its stakeholders. The following table sets out these means by stakeholder category, and examples of actions undertaken in 2012.

STAKEHOLDER	MEANS OF DIALOGUE	EXAMPLES OF 2012 ACTIONS
EMPLOYEES	<i>PULSE opinion poll addressed to 100% of the Group's permanent employees. Reporting followed by themed working groups.</i>	<i>Conducted in 2011-2012, 80% response rate. Topics addressed in the questionnaire in working groups included: «enterprise value», «professional development», «working effectively».</i>
	<i>Platforms for dialogue between HR departments and employees.</i>	<i>«L'Oréal and Me» platform launched in 2008, available to all of the Group's employees in 15 languages.</i>
	<i>Webchats allowing an instant dialogue between employees and the Chairman and Chief Executive Officer and/or Country Managers.</i>	<i>«Ethics Day» webchats with Country Managers: 22,000 participants in 65 countries, over 2,600 questions submitted.</i>
	<i>Secure feedback system for ethical issues.</i>	<i>Additional communication on the existence of the system as part of Ethics Day.</i>
	<i>Training and professional development.</i>	<i>In 2012, all areas included, above 1,063 million hours of training.</i>
	<i>Social dialogue in accordance with current legislation. In France, Central Works Council (CCE), Works Councils (CE), Health, Safety &amp; Working Conditions Committees (CHSCT), employee representatives (DP), and a Group committee.</i>	<i>L'Oréal SA bodies in 2002: 1 CCE, 3 CE, 12 CHSCT and 9 DP. Meetings held in 2012: CE: 36, CCE: 8 (instead of the mandatory 2), DP: 36, CHSCT: 91, plus annual salary and employment negotiations.</i>
	<i>In addition to the regulatory framework, L'Oréal has set up Informal Social Dialogue Meetings (RIEDS) for preliminary discussion of collective agreements, plus a certain number of mandatory or optional themed commissions.</i>	<i>For L'Oréal SA: 9 RIEDS held, and 17 intercompany commissions on subjects including employee profit-sharing and incentive agreements, personal insurance or medical expenses.</i>
	<i>Participation in the L'Oréal European Works Council (IEDS/EWC), founded in 1996.</i>	<i>Participation in the IEDS/EWC covering 30,000 employees in 26 EEA countries.</i>
	<i>Collective agreements.</i>	<i>102 new collective agreements signed in 2012 (making a total of 298 at 31/12/2012).</i>
SUPPLIERS	<i>«Business Reviews»: annual meetings between L'Oréal and its strategic suppliers.</i>	<i>At a Group level, 75 Business Reviews in 2012. Content included dialogue on supplier and L'Oréal strategies and performance in five areas: quality; innovation, competitiveness, delivery/supply chain and CSR.</i>
	<i>«Suppliers Day»: events bringing together the Group's leading suppliers around the world.</i>	<i>5 Suppliers Days held in 2012: three in France, one in Hong Kong and one in the USA for 265 suppliers, plus one organised by The Body Shop in the UK and another in China.</i>

STAKEHOLDER	MEANS OF DIALOGUE	EXAMPLES OF 2012 ACTIONS
SUPPLIERS	Trade fairs enabling various L'Oréal teams (Purchasing, Marketing, Packaging, etc.) to meet suppliers.	Biannual «Cherry Pack» trade fair, last held in November 2011 in St. Ouen, where 7 suppliers presented their packaging innovations to 700 L'Oréal employees.
	Supplier participation in the Supply Chain Carbon Disclosure Project (CDP) alongside L'Oréal.	In 2012, of the 156 suppliers invited to do so by L'Oréal, 133 joined the Supply Chain CDP. In 2012, creation with CDP of a scorecard issued to suppliers.
	Social audits.	1,120 social audits of L'Oréal suppliers in 2012.
CONSUMERS <sup>(1)</sup>	Telephone and written contacts via consumer departments.	1.24 million consumer contacts recorded in 63 countries (12 countries reported only partial information). Contacts handled in 2012 by 520 L'Oréal employees in 63 countries.
	Interactions via social networks.	L'Oréal Group has 14,100 Twitter followers and an average of 40 tweets a day. Facebook pages for each brand, e.g. 3.6 million fans for the Lancôme page.
	<sup>(1)</sup> See Product Responsibility GRI Data Sheet, PR5 Customer Satisfaction Practices, in particular results of customer satisfaction surveys.	
SHAREHOLDERS <sup>(1)</sup>	Meetings with shareholders and the Consultative Committee.	6,000 contacts in 2012, including 10 shareholders' meetings and 4 meetings of the Consultative Committee. Participation for the 9th year running in the Actionaria investor fair (November 2012).
	Events organised around corporate life.	Visits to L'Oréal sites such as Sopréal, Aulnay (May 2012), or CAPI, St. Ouen (December 2012).
	Annual General Meeting of shareholders.	1,600 shareholders attended the 2012 AGM.
	Call centre and dedicated web pages.	Freephone number for shareholders: over 12,000 calls in 2012. Investors can reach one of four L'Oréal investor contacts directly via the Shareholders space on <a href="http://www.loreal.com">www.loreal.com</a>
	Online communications: mobile apps, newsletter, e-magazine.	In 2012: 6 newsletters and 3 letters to shareholders.
	<sup>(1)</sup> See indicator 4.4. Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body in the Governance GRI Data Sheet.	
CUSTOMERS	Bilateral dialogue on setting up sustainable development projects.	Environmental labelling by Carrefour and Garnier Ultra-Doux since 1 July 2011. Deliveries to 400 L'Oréal Luxe outlets by electric vehicle.

STAKEHOLDER	MEANS OF DIALOGUE	EXAMPLES OF 2012 ACTIONS
NGOs AND ASSOCIATIONS	<i>Meetings with regional NGOs and associations at Stakeholder Forums.</i>	<i>Mumbai and Johannesburg in 2012, attended by 49 associations and NGOs.</i>
	<i>Bilateral dialogue between international NGOs and concerned Group departments.</i>	<i>L'Oréal was in contact with 6 international NGOs on biodiversity issues in 2012.</i>
	<i>Meetings with local NGOs and associations on raw materials procurement projects.</i>	<i>L'Oréal is currently in contact with an NGO as part of its «Sustainable Argan» programme, and with 2 NGOs as part of its «Better Karité» programme. Each current procurement programme involves at least one local NGO.</i>
NON-FINANCIAL RATING AGENCIES AND INVESTORS	<i>Investor conferences in leading financial marketplaces.</i>	<i>2 investor conferences held in 2012, in London and Paris.</i>
	<i>Numerous ISR roadshows.</i>	<i>3 ISR roadshows in 2012. NB: ISR analysts may also attend «classic» roadshows or investor meetings.</i>
	<i>Financial information meetings to present results; analyst/investor trips.</i>	<i>2 financial information meetings at L'Oréal headquarters and one analyst/investor trip.</i>
	<i>Telephone conferences dedicated to investors.</i>	<i>3 telephone conferences.</i>
	<i>Meetings with non-financial rating agencies on year-end ratings.</i>	<i>10 non-financial rating questionnaires completed in 2012.</i>
ACADEMIC & SCIENTIFIC COMMUNITY	<i>Scientific collaboration, colloquia, conferences and publications.</i>	<i>Presentation of the integrated safety assessment strategy by L'Oréal R&amp;I at the SOT Congress in San Francisco, ESTIV Conference in Lisbon, Colama Conference in Rio, EUSAAT Conference in Linz, Alternative Methods workshop in Brasilia, and Cosmetics Europe workshop in Ispra.</i>
	<i>Scientific research projects encouraged by the L'Oréal Foundation and grants to young women researchers.</i>	<i>«For Women in Science» <sup>(1)</sup> programme: awards to 230 women scientists worldwide in 2012, including 5 L'Oréal-UNESCO prize-winners. In France, 25 grants given to young women researchers.</i>
	<i>Participation in biodiversity organisations.</i>	<i>Participation to the Strategic Steering Committee (COS) of the Foundation for Research and Biodiversity (FRB).</i>
	<i>Participation in academic research and/or teaching programmes.</i>	<i>Participation in the European Conference on Plurilingualism. Presentations on business ethics to the IEP Paris (Sciences Po) Law Clinic, University of Angers, Rabelais University of Tours, EDHEC Lille, and Paris-Dauphine University. Member of the Scientific Committee of the Law and Business Ethics Chair, University of Cergy-Pontoise.</i>
	<i><sup>(1)</sup> For more information: <a href="http://www.loreal.com/en/w/for-women-in-science.aspx">http://www.loreal.com/en/w/for-women-in-science.aspx</a></i>	

STAKEHOLDER	MEANS OF DIALOGUE	EXAMPLES OF 2012 ACTIONS
CENTRAL AND LOCAL AUTHORITIES	<i>Meetings between the authorities and L'Oréal federations and lobbying bodies.</i>	<i>As part of the European REACH regulations, L'Oréal is involved in associations at national and European level, contributing to the analysis and formulation of practical guides on REACH implementation.</i>
	<i>Dialogue between local authorities and L'Oréal site managers on local and regional projects.</i>	<i>In France, at the Mourenx site (64, Pyrénées Atlantiques) L'Oréal is involved in professional federations and competitiveness clusters, local partnerships with the Chamber of Commerce, local schools (Cité Scolaire, ENSCGTI), a sheltered employment structure, a local association «Vivre Ensemble» supplying pallets, etc.</i>
	<i>Bilateral exchanges with international regulatory bodies: ISO, ADEME/AFNOR, etc.</i>	<i>Participation in the ADEME/AFNOR working group on environmental labelling since 2008.</i>
	<i>Participation in working groups and technical commissions with multi-player associations (L'Orée, MEDEF, etc.)</i>	<i>Member of the committee and working groups of the Beauty Industry Federation (FEBEA) on environmental labelling, of Cosmetics Europe on revision of the European eco-label for shampoo, and of EUROPEN.</i>
	<i>Participation in summits organised by intergovernmental bodies.</i>	<i>L'Oréal demonstrated its commitment to understanding and protecting biodiversity by taking part in two summits in 2012:</i> <ul style="list-style-type: none"> <li>• <i>the Biodiversity Summit organised by the UN in Hyderabad, India, in October 2012, where L'Oréal and the Institute for Sustainable Development and International Relations (IDDRI) organised a roundtable on the sustainable use of biodiversity as a source of innovation,</i></li> <li>• <i>the Rio +20 Earth Summit held in Rio de Janeiro, Brazil, in June 2012, where L'Oréal organised a round table on the responsible use of biodiversity.</i></li> </ul>
	<i>Consultations with the authorities.</i>	<i>Hearing by Senator Lorrain of the French Senate's European Affairs Commission on the consideration of ethical issues in the context of Europe.</i> <i>Presentations and debates on business ethics in the European Parliament, under the auspices of MEP Bill Newton Dunn.</i>
	<i>Participation in summits organised by intergovernmental bodies.</i>	<i>L'Oréal also attended the inaugural forum on business and human rights, held in Geneva in December 2012.</i>

STAKEHOLDER	MEANS OF DIALOGUE	EXAMPLES OF 2012 ACTIONS
STUDENTS AND YOUNG GRADUATES	Reaching out to students through competitions and campus managers.	In 2012, 8,249 students around the world entered the Brandstorm <sup>(1)</sup> competition, and 51,353 took part in the Reveal <sup>(2)</sup> Competition.
	Partnerships with schools and universities for the benefit of pupils and students.	Report on the «Sciences Po Accessible» project on accessibility and disability in 2012. Support programme for science subjects at the Lycée Faidherbe, Lille, and Sciences Po Paris. Near the Mourenx plant (64, Pyrénées Atlantiques), signature of a charter with the Mourenx Cité Scolaire on the organisation of educational activities.
	Partnerships with schools and universities in order to welcome trainees, apprentices in every function within L'Oréal.	In France, L'Oréal provided 1,439 contractual internships and 613 sandwich courses in 2012.
	<sup>(1)</sup> For more information: <a href="http://www.brandstorm.loreal.com">http://www.brandstorm.loreal.com</a> <sup>(2)</sup> For more information: <a href="http://www.reveal-thegame.com/">http://www.reveal-thegame.com/</a>	
CIVIL SOCIETY	Dialogue with victims of exclusion.	6,567 beneficiaries of the Foundation's beauty programme.
	Training centres for underprivileged populations <sup>(1)</sup> .	Training centres in 14 countries, 1,400 trainees. In France, for example, with the Apprentis d'Auteuil, 13 pupils received training. In Vietnam, trainee success rate in finding employment: over 80%.
	Implication de collaborateurs du Groupe auprès des communautés.	«Citizen Day», an annual day of solidarity in which over 20,100 employees in over 60 countries took part in 2012.
	Promoting employment for communities through Solidarity Sourcing.	Access to employment for 15,000 through Solidarity Sourcing (excluding The Body Shop).
	<sup>(1)</sup> For more information, see the Economy GRI data sheet, criterion ECS.	

L'Oréal also has other means of dialogue with its stakeholders, via the Contact sections of its [www.loreal.com](http://www.loreal.com) website.

### Focus on Stakeholder Forums

The nature of sustainable development issues varies from one region of the world to another. The L'Oréal Group's CSR and Sustainable Development Direction has therefore implemented Stakeholder Forums, involving mainly NGOs and university academics, all over the world to provide a basis for local dialogue on global and local issues.

Since 2011, L'Oréal has held forums in Brazil, China, the USA, the UK, India and South Africa. A total of 527 organisations were contacted over the period, of which 163 responded and took part in one of the forums. L'Oréal does not set the agenda for these events, preferring to leave the initiative to stakeholders themselves so that dialogue can focus on their specific needs and concerns.



The Johannesburg forum held in November 2012 was attended by 29 local and international organisations and addressed environmental issues ranging from access to education for the most deprived communities, to social issues in the broadest sense, social business and animal welfare.

In the wake of the forums, local initiatives are encouraged and implemented, often by organising meetings at which NGOs provide expertise and advice in areas such as sustainable sourcing of raw materials or waste management.

Each forum involving external stakeholders is run parallel with an internal forum at which both global CSR strategy and local initiatives are presented to employees.

L'Oréal will henceforth hold its Stakeholders Forums annually in order to maintain an ongoing dialogue with its stakeholders.

#### **4.17 Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting**

This ongoing dialogue has allowed L'Oréal and its stakeholders to engage in joint reflection on sustainable development issues. L'Oréal analyses the data emerging from the dialogue, such as the minutes of Stakeholder Forums or reports by non-financial rating agencies, to keep abreast of stakeholder expectations and align its own strategy accordingly.

At the Johannesburg and Mumbai forums, for example, the question arose as to how L'Oréal was to acquire a billion new consumers while continuing to reduce its environmental impact. Other questions raised by stakeholders addressed issues as varied as social business, diversity, the fight against poverty, waste management, beauty diversity and truthfulness in advertising, supplier audits and animal welfare.

In 2012, L'Oréal identified some thirty issues of particular interest to stakeholders and to the Group, on the strength of which it was able to update its materiality analysis and performance indicators (for more information, see the section on Parameters relating to materiality analysis, the materiality matrix and performance indicators).